

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON INGWE MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ingwe Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ingwe Municipality as at 30 June 2011 and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA.

Emphasis of matter

8. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Restatement of corresponding figures

9. As disclosed in note 33 to the financial statements, the corresponding figures for the year ended 30 June 2010 have been restated as a result of errors discovered during 2010-11 in the financial statements of the Ingwe Municipality at, and for the year ended, 30 June 2011.

Additional matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

11. I have not obtained the other information included in the annual report for my review and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

12. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010* issued in *Government Gazette No.33872 of 15 December 2010*. I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives**Usefulness information**

14. The following criteria is relevant to the findings below

- Measurability: Indicators are well-defined and verifiable, and targets are specific, measurable and time bound.
- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents.

15. The following audit findings relate to the above criteria:

Planned and reported targets are not measurable and time bound

16. For the selected objectives, 69% of the planned and reported targets were not measurable in identifying the required performance.

17. For the selected objectives, 69% of the planned and reported targets were not time bound in specifying the time period or deadline for delivery.

Reported targets are not consistent when compared with the planned targets

18. For the selected objectives, 79% of the planned and reported targets were not consistent with the Service Delivery Budget Implementation Plan (SDBIP).

No budget allocation per development priority/objective noted in SDBIP

19. For the selected objectives, 79% of the programs did not have a budget allocation noted in the SDBIP.

Reliability of information

20. The following criteria are relevant to the findings below:

- Validity: Actual reported performance has occurred and pertains to the entity
- Accuracy: Amounts, numbers, and other data relating to reported actual performance have been recorded and reported appropriately
- Completeness: All actual results and events that should have been recorded have been included in the annual performance report

21. The following audit findings relate to the above criteria:

Reported performance against targets is not valid, accurate and complete when compared to source information

22. For the selected objective, 33% of the reported targets were not valid, accurate and complete based on the source information or evidence provided.

Compliance with laws and regulations**Annual financial statements**

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1)(a) of the MFMA . Material misstatements of property plant and equipment were identified by the auditors and subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

24. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality, as required by Municipal SCM Regulation 27(3).

Internal audit

25. The internal audit unit did not function as required by section 165(2) of the MFMA, in that, Internal audit did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls and loss control and compliance related matters.

INTERNAL CONTROL

26. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No.33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies regarding the findings on the annual performance report and the findings on compliance with laws and regulations.

Leadership

27. The accounting officer and audit committee did not perform adequate oversight to ensure that internal audit is adequately resourced in order to fulfil their legislated responsibilities.
28. The municipal council did not exercise oversight over the preparation of the Integrated Development Plan (IDP) to ensure that it contains targets which are specific, measurable and time-bound and consistent with those in the annual performance report.

Financial and performance management

29. The acting chief financial officer has not developed and implemented a compliance checklist.
30. The accounting officer did not implement controls to ensure that documents and records such as schedules and reconciliations, supporting the performance report, are properly filed and easily retrievable and are available for audit purposes.

Pietermaritzburg

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence